

---

**GENERAL FUND FINANCING**

County general fund operations are financed with four major types of financing sources: departmental program revenue, Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue.

Departmental program revenue includes fees, service charges, and state and federal support for programs such as welfare, health care, and behavioral health. Proposition 172 revenue is restricted and is used solely for financing the Sheriff, District Attorney, and Probation departments. Realignment revenue is also restricted and used in financing mental health, social services and health programs within the County.

The balance of departmental costs not funded by departmental program revenue, Proposition 172 revenue, and/or Realignment revenue is considered local cost. Local cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments via local cost is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes. One is to ensure that the county can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. The second purpose is to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

The following pages describe in more detail Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue that assists in financing general fund departments. In addition, detailed information is included on the contributions and uses of county general fund contingencies and reserves for 2005-06 and the approved contributions and uses of general fund contingencies and reserves for 2006-07.

**PROPOSITION 172**

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the state's constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the state property tax shift to the Educational Revenue Augmentation Fund (ERAF).

The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. Pursuant to Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the county.

On August 22, 1995, the County of San Bernardino Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the county's 95% share of Prop 172 revenue, consistent with Government Code Section 30052 and authorized the Auditor/Controller to deposit the county's portion of the Prop 172 revenue as follows:

➤	Sheriff	70.0%
➤	District Attorney	17.5%
➤	Probation	12.5%

Prop 172 revenue currently presents a significant funding source for the Sheriff, District Attorney, and Probation Departments. Each year, as part of the budget development process, projections of Prop 172 growth are developed based on staff analysis of revenue trends and forecasts provided by outside economists.

Growth in Prop 172 revenue is used first to fund mandated cost increases in these departments, including MOU adjustments, retirement, worker's compensation and insurance. Any revenue beyond what is needed to fund mandated costs becomes discretionary revenue to the department, and is used to meet other high priority needs as recommended by the department and approved by the Board. In most years, the mandated cost increases consume the vast majority of Prop 172 revenue growth and all Prop 172 revenue is distributed to the designated departments.

However, in 2002-03 and subsequent years, unexpected increases in Prop 172 revenue have resulted in an excess of actual over budgeted Prop 172 revenue. All excess revenue is set aside in a restricted general fund and is appropriated upon Board approval. The chart below illustrates the beginning and anticipated ending fund balance of this restricted general fund for 2006-07 as well as projected revenue and planned expenditures from this fund.

Prop. 172 budgeted revenue in 2006-07 is \$154.7 million (\$154.3 million in Prop. 172 receipts and \$0.4 million in interest revenue). The applicable department's budgeted appropriation is \$154.8 million due to: 1) funding mandated costs mentioned above; 2) allocation of \$2.6 million of the Sheriff's discretionary revenue to fund a portion of the department's computer replacement program and 28 new positions, including dispatchers, medical personnel, booking officers, and a patrol sergeant; and 3) the District Attorney's utilization of \$0.5 million of their share of the excess revenue toward MOU costs. These planned expenditures, offset by reimbursement of \$2.2 million from the sale of Sheriff's helicopters, result in an estimated ending fund balance of \$14.9 million.

	2006-07				
	<u>Beginning Fund Balance (AAG)</u>	<u>Budgeted Revenue</u>	<u>Budgeted Departmental Usage</u>	<u>Other Budgeted Receipts</u>	<u>Estimated Ending Fund Balance (AAG)</u>
Sheriff	4,196,455	108,290,000	108,010,000	2,200,000	6,676,455
District Attorney	4,723,811	27,072,500	27,535,392		4,260,919
Probation	3,929,038	19,337,500	19,287,500		3,979,038
Total	12,849,304	154,700,000	154,832,892	2,200,000	14,916,412



## **REALIGNMENT**

In 1991 the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to 0.65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide Realignment revenues.

Within the mental health area, the programs for which the county is now responsible are: community-based mental health programs, State Hospital services for county patients, and Institutions for Mental Disease. Within the social services area, the programs for which the county is now responsible are: the county revenue stabilization program and the county justice subvention program. Within the health area, the programs for which the county is now responsible are: AB8 county health services, local health services, medically indigent services, and the county medical services program.

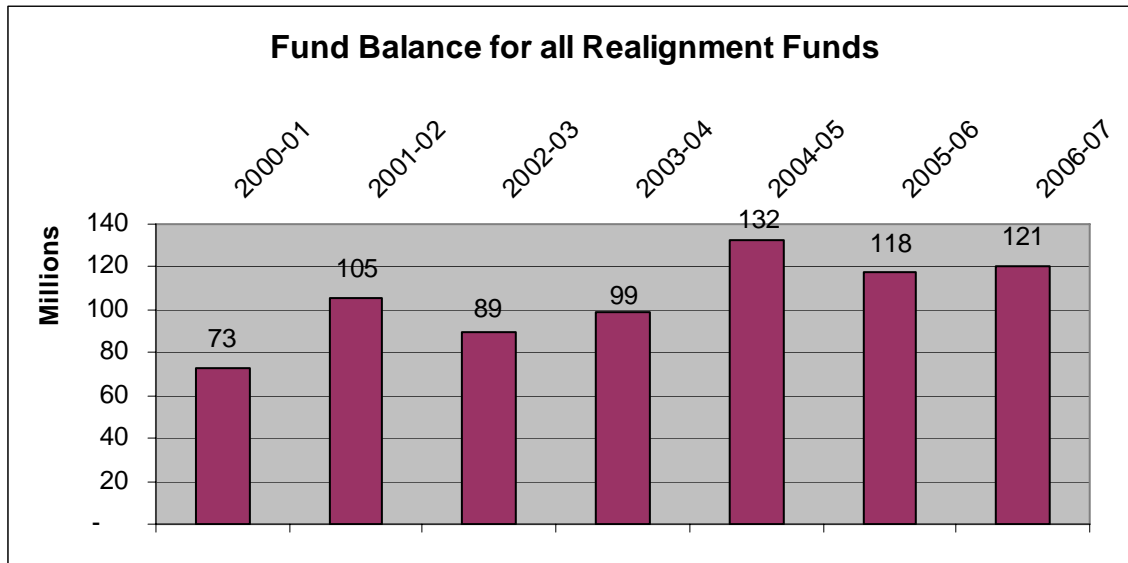
In addition to these shifted responsibilities, a number of programs had changes made to their cost sharing ratios. Below are the programs that had cost sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost). For example, prior to Realignment Foster Care costs were funded by 95% state resources and 5% county resources. Now Foster Care is funded by 40% state resources and 60% county resources, which is a significant impact to the county.

	From State/County	To State/County
<b>Social Services programs:</b>		
Foster Care	95/5	40/60
Child Welfare Services	76/24	70/30
Adoption Assistance	100/0	75/25
CalWORKs	89/11	95/5
County Services Block Grant	84/16	70/30
Greater Avenues for Independence	100/0	70/30
Social Services administration	50/50	70/30
In Home Supportive Services (IHSS)	97/3	65/35
<b>Health programs:</b>		
California Children's Services	75/25	50/50

The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First, is San Bernardino's status as an "under equity county," meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. Realignment did attempt to address the inequity issue, but the effort fell short. The county continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, that incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.



In addition to the under equity issue is the fact that the demand for the services the county is providing and the revenue streams funding them are both sensitive to the economy. When the economy is doing well, demand for services is reduced and sales taxes and vehicle license fees revenues are high. When the economy does poorly, demand for services is high, but revenues under perform. The graph below shows the history of fund balance for all Realignment funds.



Fund balances have increased significantly since 2003-04. The increased fund balance in 2004-05 was driven by lower than expected expenditures in Behavioral Health, Probation, ARMC, and Foster Care. Additionally, sales tax growth revenue within the Social Services Fund for the year ending June 30, 2005 was significantly higher than anticipated.

**Budget History for All Realignment Funds**

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Beginning Fund Balance	98,811,069	127,142,867	132,187,967	117,711,163
Revenue	192,990,301	194,837,344	203,174,384	212,247,973
Department Usage	159,613,403	204,962,160	217,651,188	209,101,739
Ending Fund Balance	<u>132,187,967</u>	<u>117,018,051</u>	<u>117,711,163</u>	<u>120,857,397</u>
Change in Fund Balance	33,376,898	(10,124,816)	(14,476,804)	3,146,234

The schedule above shows the impact of the unexpected revenue growth from sales tax in the 2004-05 fiscal year as reflected in the difference between the 2005-06 Budgeted Beginning Fund Balance of \$127.1 million to the 2005-06 Actual Beginning Fund Balance of \$132.2 million. The 2004-05 sales tax growth revenues become a part of the revenue base for 2005-06 and beyond, resulting in estimated revenue of \$203.2 million in 2005-06 and \$212.2 million in 2006-07. It is important to note that growth revenues for a particular year do not come in until up to 7 months after the close of the year, so revenues shown in the 2005-06 Actual column still reflect an estimate of growth for the 2005-06 year. Beginning fund balances and departmental expenditures in that column do reflect actuals.



---

**SUMMARY OF REALIGNMENT BUDGET UNITS FOR 2006-07**


---

	<b>Estimated Beginning Fund Balance</b>	<b>Budgeted Revenue</b>	<b>Budgeted Departmental Usage</b>	<b>Budgeted 10% Transfers</b>	<b>Estimated Ending Fund Balance</b>	<b>Estimated Change in Fund Balance</b>
Mental Health	51,360,727	61,977,359	67,673,293	-	45,664,793	(5,695,934)
Social Services	26,566,979	87,826,701	76,433,144	-	37,960,536	11,393,557
Health	39,783,457	62,443,913	64,995,302	-	37,232,068	(2,551,389)
Total	117,711,163	212,247,973	209,101,739	-	120,857,397	3,146,234

The Realignment budgets do not directly spend funds or provide service. They are strictly financing budgets with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The Realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given year's revenue from one fund to another. San Bernardino County has used the provision repeatedly over the years to help support either the health or social services programs. The County did not do a 10% transfer in 2005-06 and is not budgeting one for 2006-07. However, in the event that such transfer is needed, Board of Supervisors approval is required.

The next three pages contain the breakdown of the three individual Realignment funds.



<b>Mental Health</b>
----------------------

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Beginning Fund Balance	28,688,639	44,253,797	45,024,101	51,360,727
Revenue	58,275,110	60,265,645	60,047,565	61,977,359
Department Usage	41,939,648	62,806,720	53,710,939	67,673,293
10% Transfers	-	-	-	-
Ending Fund Balance	45,024,101	41,712,722	51,360,727	45,664,793
Change in Fund Balance	16,335,462	(2,541,075)	6,336,626	(5,695,934)

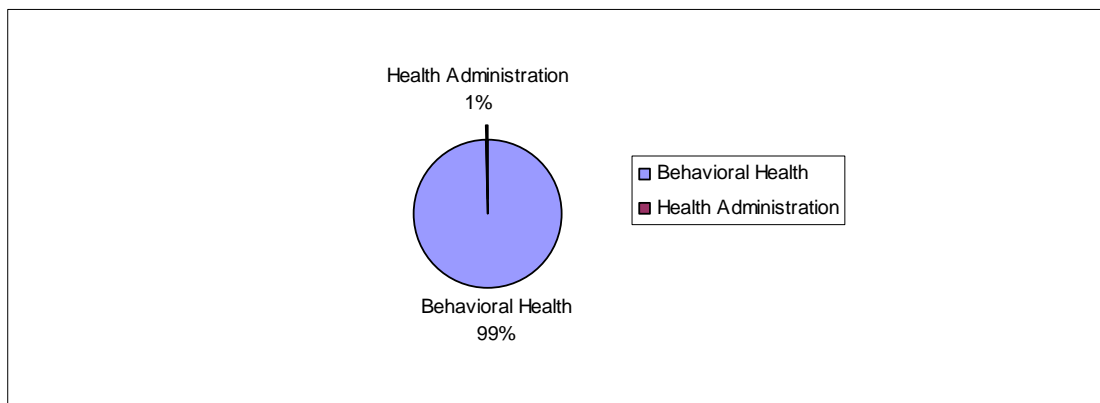
Mental Health realignment revenue is currently composed of 57% sales tax and 43% vehicle license fees. Revenue is expected to climb very slowly since any growth in sales tax will be dedicated to Social Services to fund caseload growth.

In 2005-06 Behavioral Health's usage of realignment funds was less than anticipated resulting in an increased fund balance of \$6.3 million as opposed to a budgeted use of \$2.5 million of fund balance. For 2006-07 the Mental Health fund is budgeted to spend \$5.7 million of fund balance. The Department of Behavioral Health and the County Administrative Office will need to closely monitor this budget over the next few years to ensure that ongoing expenditures and ongoing revenues stay in line whenever possible. This is made difficult by the known future increases resulting from MOU negotiations coupled with limited growth in realignment revenue due to Social Services continued draw of all sales tax realignment growth revenue.

Prior to the sales tax shortfalls in Social Services, Mental Health realignment revenues were composed roughly 66% sales tax and 34% vehicle license fees versus the current 57%/43%. That shift has occurred entirely because of the Social Services funds priority claim on sales tax growth to pay for increasing caseloads.

<b>Breakdown of Department Usage of Mental Health Realignment</b>
---

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Behavioral Health	41,823,063	62,490,106	53,311,325	67,252,313
Health Administration	116,585	316,614	399,614	420,980
Total Department Usage	41,939,648	62,806,720	53,710,939	67,673,293



### Social Services

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Beginning Fund Balance	13,962,929	10,773,422	14,519,258	26,566,979
Revenue	75,334,223	74,259,986	82,283,188	87,826,701
Department Usage	74,777,894	78,622,355	70,235,467	76,433,144
10% Transfers	-	-	-	-
Ending Fund Balance	14,519,258	6,411,053	26,566,979	37,960,536
Change in Fund Balance	556,329	(4,362,369)	12,047,721	11,393,557

Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees. In a drastic turnaround from prior years, sales tax coming in to Social Services realignment has grown dramatically. While this is good news, the growth has been insufficient to make up for prior years' shortfalls. Statewide, sales tax collections even in this very good year were \$169.2 million short of what was necessary to fund caseload growth within the mandated Social Services programs.

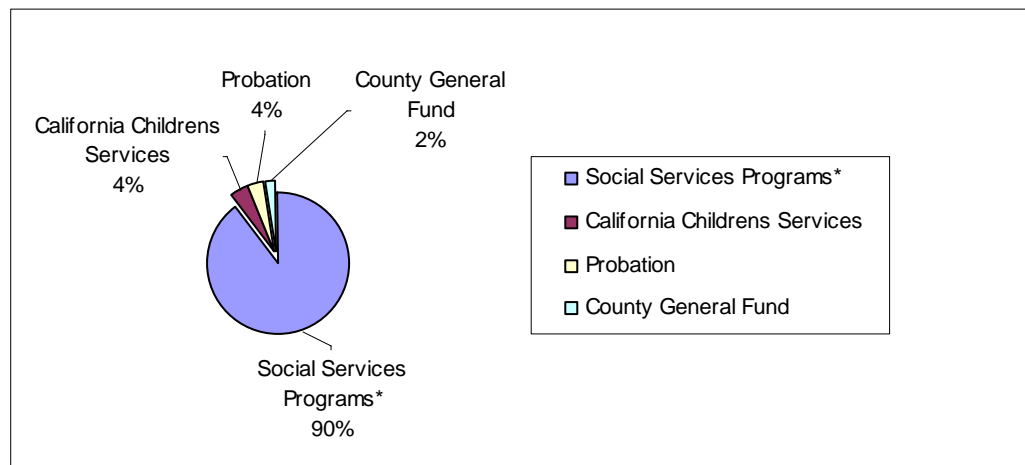
The County Administrative Office is projecting that statewide sales tax collection will be insufficient again in 2006-07 resulting in a shortfall of approximately \$9.7 million to San Bernardino County. While the Social Services fund continues to run a sales tax deficit, the Mental Health and Health funds will receive no growth on their sales tax base amounts resulting in continuing budget difficulty for those funds. Through June 30, 2006, it is projected that San Bernardino County will have lost approximately \$52.7 million as a result of sales tax shortfalls since the 2001-02 year when sales tax revenues actually declined on an annual basis.

The 2005-06 expenditures show a slight savings compared to budget. As indicated earlier, sales tax growth has been higher than expected resulting in significantly increased social services revenue. For the 2006-07 budget ongoing expense and ongoing revenue shows a surplus of \$11.4 million; however, this is based on continued assumed sales tax growth that may begin to feel pressure should the economy begin to slow.

### Breakdown of Department Usage of Social Services Realignment

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Social Services Programs*	71,204,252	72,584,684	62,722,858	68,580,269
California Childrens Services	1,923,420	1,538,041	3,012,979	3,353,245
Probation	-	2,700,630	2,700,630	2,700,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Department Usage	74,926,672	78,622,355	70,235,467	76,433,144

\* Soc. Svcs. Programs include: IHSS, Foster Care, Seriously Emotionally Disturbed, and Administrative Claim Matches



<b>Health</b>
---------------

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Beginning Fund Balance	56,159,501	72,115,648	72,644,608	39,783,457
Revenue	59,380,968	60,311,713	60,843,631	62,443,913
Department Usage	42,895,861	63,533,085	93,704,782	64,995,302
10% Transfers	-	-	-	-
Ending Fund Balance	72,644,608	68,894,276	39,783,457	37,232,068
Change in Fund Balance	16,485,107	(3,221,372)	(32,861,151)	(2,551,389)

As in the Mental Health realignment revenues, Health funding continues to suffer due to the lack of sales tax growth available for anything other than social services. The impact in Health is not quite as significant given that Health is primarily funded with vehicle license fees at 74% with the remaining 26% coming from sales tax.

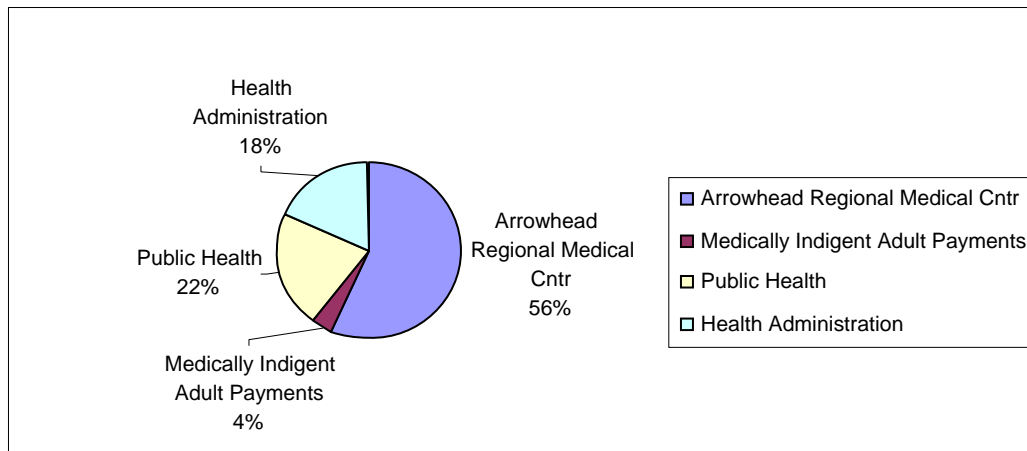
The 2006-07 budget reflects the use of \$2.6 million of fund balance. Cost pressures from ARMC pose a concern in the coming years as a result of the Medicare Waiver redesign, cost increases resulting from labor negotiations, and the continuing cost of meeting State mandated nurse to patient staffing ratios.

In 2005-06 the Board of Supervisors approved the use of \$30 million of the Health Realignment fund balance to convert the 6th floor of ARMC from administration to new inpatient beds. Associated projects are being explored to expand parking and create a new permanent home for the administrative staff displaced from the 6th floor remodel.

Additionally, Public Health funding and their subsequent need for realignment revenues continues to be a concern. State and Federal grant programs have failed to keep pace with rising employment and inflation costs.

<b>Breakdown of Department Usage of Health Realignment</b>
--

	<b>2004-05 ACTUAL</b>	<b>2005-06 BUDGET</b>	<b>2005-06 ACTUAL</b>	<b>2006-07 FINAL</b>
Arrowhead Regional Medical Cntr	17,450,000	34,820,000	66,733,462	36,632,500
Medically Indigent Adult Payments	2,178,750	2,550,000	2,550,000	2,550,000
Public Health	12,974,075	14,995,159	11,008,999	14,164,292
Health Administration	10,441,476	11,167,926	13,412,321	11,648,510
Total Department Usage	43,044,301	63,533,085	93,704,782	64,995,302



**Budgetary Note:** Financial information presented in this Realignment budget section is consistent with state reporting requirements for the Realignment funds. The state's reporting requirements are not consistent with the county's implementation of GASB 34 as it relates to revenue accrual. As such, within the county's





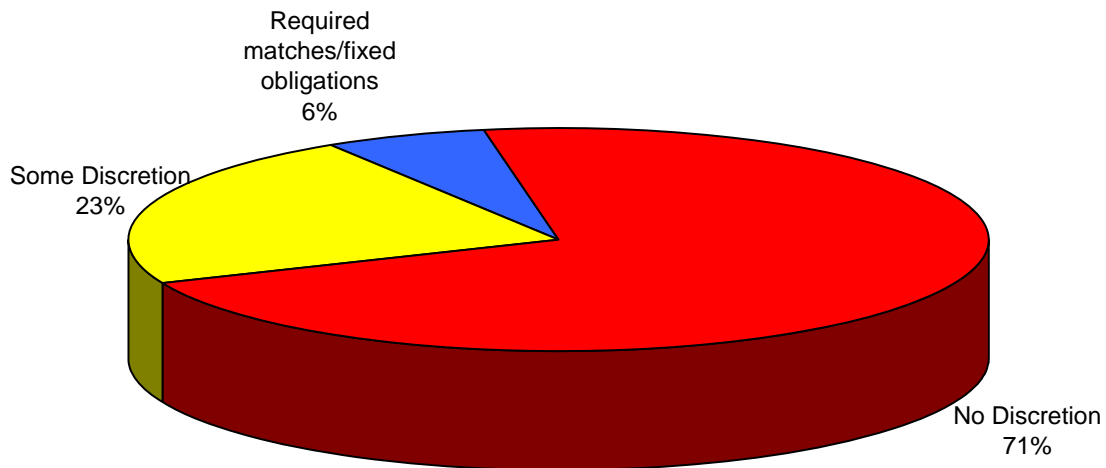
accounting system, an adjustment will be made to show the correct revenues in accordance with the county's accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing sales tax growth revenue.



**COUNTYWIDE DISCRETIONARY REVENUE**

The entire general fund budget is \$2.3 billion, however, the Board of Supervisors has no discretion on \$1.6 billion of this amount as seen in this pie chart.

## 2006-07 Final Budget General Fund Spending

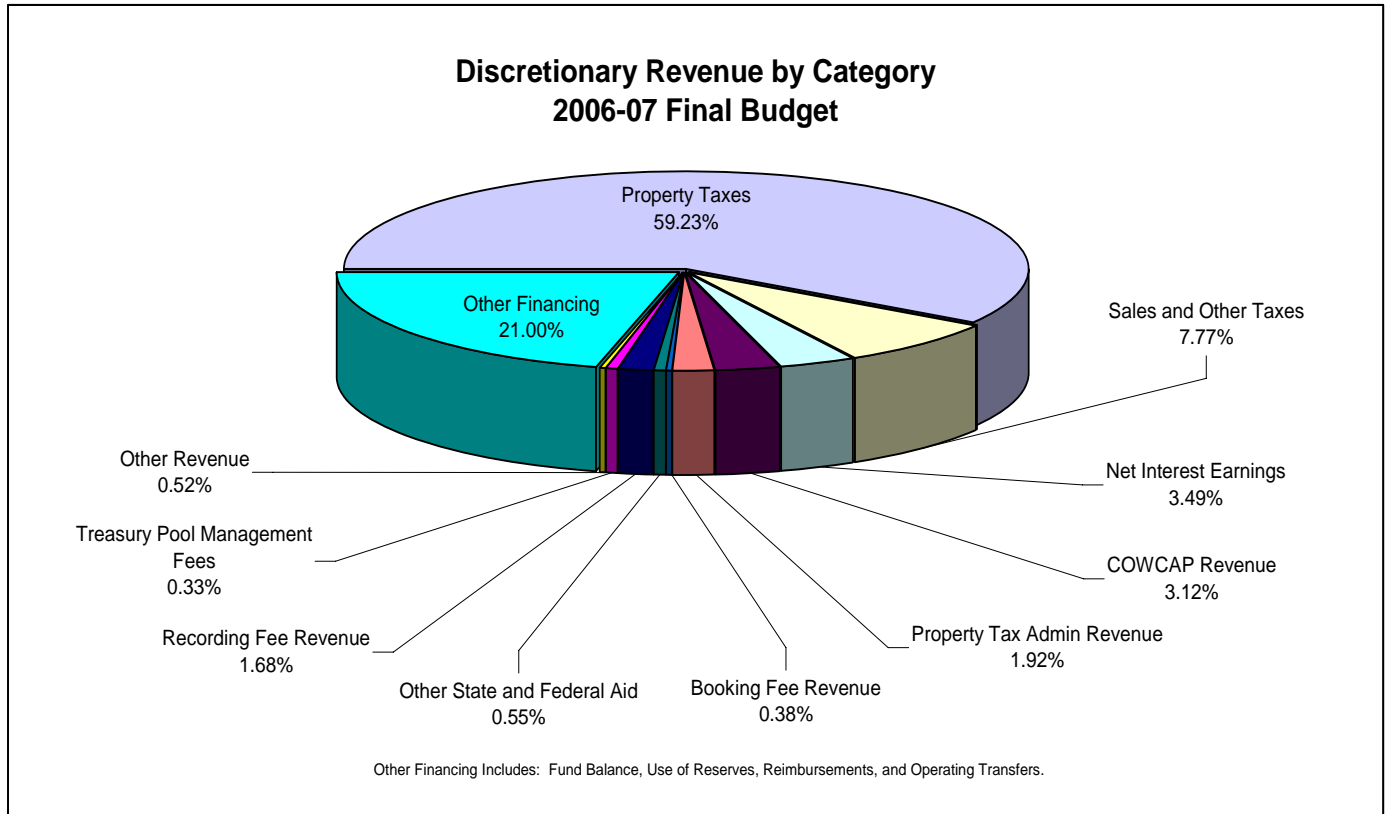


<b>SPENDING WHERE THE BOARD HAS NO DISCRETION. INCLUDES:</b>		<b>1,649,081,646</b>
Welfare costs reimbursed by state and federal monies (\$740.7 million)		
Other program costs funded by program revenues such as user fees (\$908.4 million)		
<b>REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:</b>		<b>140,833,318</b>
<b>SPENDING WHERE THE BOARD HAS SOME DISCRETION. INCLUDES:</b>		<b>523,189,492</b>
Reserve / Contingencies Contributions (\$76.0 million)		
Law and justice program costs funded by local revenues (\$252.6 million)		
All other program costs funded by local revenues (\$194.6 million)		
<b>TOTAL:</b>		<b>\$2,313,104,456</b>

The Board of Supervisors has authority over the countywide discretionary revenue, which totals \$664,022,810. This countywide discretionary revenue is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$140,883,318. The remaining amount of \$523,189,492 is available for the Board's discretion and finances departmental budgets' local cost.



Shown below are the sources of the countywide discretionary revenue for 2006-07, which total \$664,022,810:



## COUNTYWIDE DISCRETIONARY REVENUE WHICH PAY FOR GENERAL FUND LOCAL COST

	2004-05 Final Budget	2005-06 Final Budget	2005-06 Actual	2006-07 Final Budget
<b>Countywide Discretionary Revenue</b>				
Property Taxes:				
Current Secured, Unsecured, Unitary	137,207,735	139,341,353	147,020,287	186,170,860
VLF/Property Tax Swap	-	148,442,703	168,525,075	187,409,286
Supplemental Property Tax	5,275,827	8,746,613	25,049,987	14,000,000
Penalty on Current Taxes	1,135,599	1,938,095	2,906,645	1,938,095
Prior Property Taxes, Penalties and Interest	5,366,233	7,222,648	4,881,788	3,806,646
Total Property Taxes	148,985,394	305,691,412	348,383,782	393,324,887
Sales and Other Taxes:				
Sales and Use Tax	17,371,802	18,758,333	22,930,317	23,075,676
Property Transfer Tax	11,906,555	14,948,345	17,855,238	19,936,370
Franchise Fees	5,533,000	6,045,934	6,441,428	6,715,000
Hotel/Motel Tax	1,176,978	1,176,978	1,206,374	1,176,978
Other Taxes	545,455	700,000	722,498	700,000
Total Sales and Other Taxes	36,533,790	41,629,590	49,155,855	51,604,024
Vehicle License Fees	129,971,160	-	-	-
Net Interest Earnings	16,351,000	21,872,000	35,083,030	23,154,000
COWCAP Revenue	19,661,157	20,228,548	20,228,547	20,739,704
Property Tax Admin Revenue	10,651,703	10,219,145	14,058,959	12,773,384
Recording Fee Revenue	-	-	9,919,242	11,167,902
Other State and Federal Aid	3,619,799	3,593,326	7,289,241	3,647,156
Booking Fee Revenue	3,937,000	-	2,837,174	2,500,000
Treasury Pool Management Fees	-	-	-	2,219,195
Other Revenue	2,430,000	2,430,000	2,968,054	3,430,000
<b>Total Countywide Discretionary Revenue</b>	<b>372,141,003</b>	<b>405,664,021</b>	<b>489,923,883</b>	<b>524,560,252</b>
<b>Other Financing Sources</b>				
Fund Balance, beginning	88,029,109	121,637,030	121,637,030	100,698,815
Reimbursements	-	583,586	583,586	583,586
Use of Reserves	1,154,301	2,253,702	9,688,547	6,063,708
Operating Transfers	27,738,406	24,344,825	20,880,087	32,116,449
<b>Total Other Financing Sources</b>	<b>116,921,816</b>	<b>148,819,143</b>	<b>152,789,250</b>	<b>139,462,558</b>
<b>Total Countywide Discretionary Revenue and Other Financing Sources</b>	<b>489,062,819</b>	<b>554,483,164</b>	<b>642,713,133</b>	<b>664,022,810</b>

For 2006-07 general fund financing includes Countywide Discretionary Revenues of \$524.6 million and Other Financing Sources of \$139.5 million.

### Countywide Discretionary Revenues

#### **Secured Property Tax**

Secured Property Tax Revenues make up \$166.8 million of the \$186.2 million 2006-07 "Current Secured, Unsecured, Unitary" budgeted revenue number. This budgeted amount is projected using an estimated 19% increase in secured assessed valuation for 2006-07, translated to a 17% increase in secured property tax revenues for the County general fund. The 19% increase is based on estimates of assessed valuation growth provided by the County Assessor's office, and the estimates of a local economist. This revenue source is also increasing as a result of the elimination of a two-year local government contribution of property tax revenues to the State (ERAF III) that decreased the County's secured property tax revenues by \$16.4 million in both 2004-05 and 2005-06.



The table below compares the increase in secured assessed valuation for the last six years to the increase in secured property tax revenues of the general fund (adjusted for one-time revenue changes such as ERAF III).

<b>Fiscal Year</b>	<b>Countywide Locally Assessed Secured AV</b>	<b>Percent Increase</b>	<b>County General Fund Secured Revenue - Adjusted</b>	<b>Percent Increase</b>
<b>2000-01</b>	73,672,579,140		90,265,895	
<b>2001-02</b>	78,831,564,858	7.00%	96,419,313	6.82%
<b>2002-03</b>	85,194,704,924	8.07%	103,724,492	7.58%
<b>2003-04</b>	92,745,938,042	8.86%	114,005,166	9.91%
<b>2004-05</b>	103,488,544,441	11.58%	127,110,535	11.50%
<b>2005-06</b>	118,871,872,729	14.86%	143,559,894	12.94%
<b>2006-07</b>	141,392,463,582	18.95%		

As is evident in the table, county general fund revenues do not usually increase at the same rate as secured assessed valuation. This is not due to delinquent tax payments. The County participates in the Teeter method of property tax allocation for secured property tax revenues. Therefore the County, and all other agencies participating in the Teeter program, receive 100% of the secured property tax revenue to which they are entitled, regardless of payment status. Instead, the mismatch between assessed valuation growth and revenue growth can be caused in part by assessed valuations increasing at a different rate in cities than in the unincorporated areas of the County (where the County gets a larger share of the property tax revenue). Other reasons for this mismatch include:

Redevelopment Agency Allocations:

When a redevelopment project area is created, future increases in property tax revenues are allocated to the Redevelopment Agency, instead of being apportioned through the normal allocation process to the County, Cities, Schools and Special Districts. This results in a lowering of the County's percentage share of the total revenues generated by the secured property in the County. In some instances, this reduction in property tax revenues is partially offset by a pass through of a certain amount of these revenues back from the RDA to the County (and the other affected entities).

Incorporations/Annexations:

When a new city is created in the County, or when an existing city annexes additional land into its boundaries, the City takes on certain responsibilities for that geographic area that were previously the responsibility of the County and Special Districts. To fund this shift in responsibilities, the County, and any affected Special Districts, will have their share of property tax revenues reduced in favor of the City.

Based on these factors, the projected revenue increase for secured property tax revenues is 17% for 2006-07 which includes the estimated 19% growth in assessed valuation less 2% to account for the effects mentioned in the previous paragraphs.

**VLF/Property Tax Swap**

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose financing. Beginning in Fiscal Year 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the 'VLF Backfill').

The VLF Backfill was eliminated in the 2004-05 State budget. In that year the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

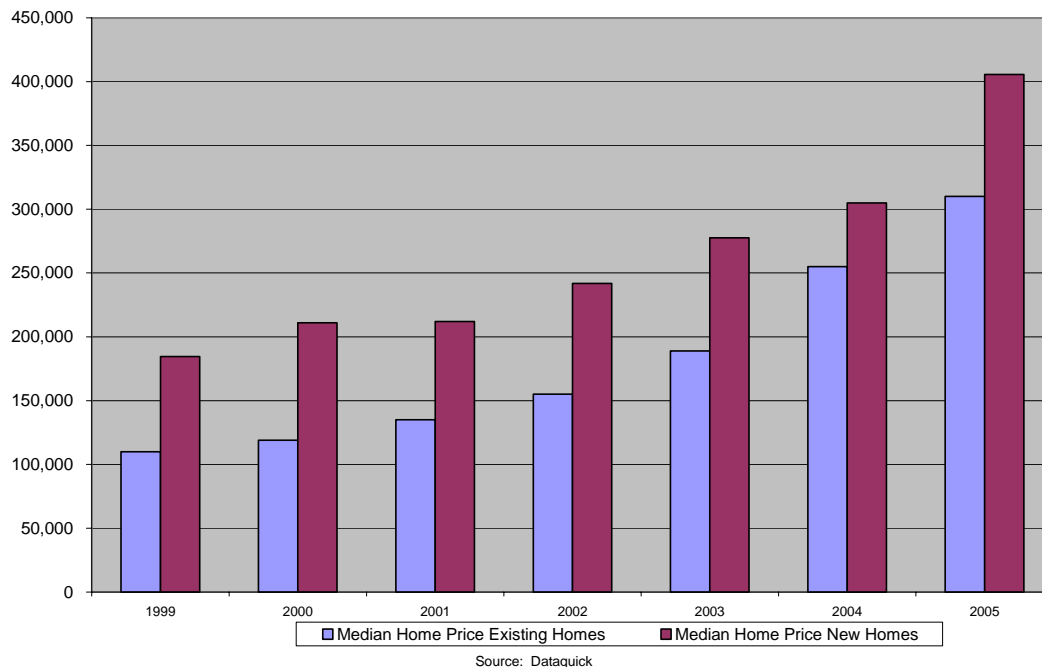


For 2004-05 the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount increased by a rate equal to the growth in assessed valuation. This growth rate includes both secured and unsecured assessed valuation, but excludes the growth rate of unitary valuations. For 2006-07, the County Assessor's Office estimates an increase in assessed valuation of 19% (the Assessor's estimate does not include Unitary valuations). This 19% rate is used to estimate the increase in the VLF/Property Tax Swap revenues in the 2006-07 budget.

### Supplemental Property Tax

Supplemental Property Tax payments are required from property owners when there is an increase in the assessed valuation of their property after the property tax bill for that year has been issued. Generally there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenues to the County. The opposite is true when home prices and sales volume is declining. In fact, when the sales price of a property is lower than the current assessed value of the property, a refund may be due to the property owner.

In recent years the County has been experiencing dramatic increases in housing sales and housing prices. The following chart illustrates the dramatic rise in housing prices for both new and existing homes.



In addition, sales of new and existing homes have risen from approximately 8,500 for the 3rd quarter of 1999 to approximately 11,500 for the 3rd quarter of 2005. These factors have contributed to a dramatic rise in supplemental property tax revenues to the general fund as shown in the schedule below.

<b>Fiscal Year</b>	<b>Supplemental Property Tax Revenues</b>	<b>Percent Increase/ (Decrease)</b>
1998-99	1,009,170	
1999-00	1,446,766	43.36%
2000-01	2,368,978	63.74%
2001-02	2,918,443	23.19%
2002-03	4,937,268	69.17%
2003-04	6,102,778	23.61%
2004-05	13,219,499	116.61%
2005-06	25,049,987	89.49%

In 2006 the housing market began to slow down. For the first seven months of 2006, new and existing home sales by month (as compared to the same month in the prior year) are down for every month except May. In addition, home prices are not rising as quickly as in recent years. Given the nature and large fluctuations of supplemental property tax revenues, it is likely that the County will experience a decline in this revenue if sales volume continues to fall. An offsetting factor is the impact of the VLF/Property Tax Shift on supplemental property tax revenues. Because of the nature of the VLF/Property Tax Swap, the Education Revenue Augmentation Fund (ERAF) no longer receives supplemental tax revenues. Supplemental tax revenues that would have gone to ERAF are instead contributed to counties and cities. As a result, the 2006-07 final budget includes estimated supplemental property tax revenues of \$14 million, approximately \$11 million less than 2005-06 actual revenues. This budgeted amount is the current estimate of the sustainable level of this revenue for the near future.

### **Sales and Use Tax**

County discretionary revenues include 1% of the 7.75% sales tax rate charged on purchases made in the unincorporated areas of the County. In recent years, due to the strong housing market and resulting population increase, County discretionary sales tax revenues have increased significantly.

When preparing the annual budget, the County projects future sales tax revenues based on data provided by a local economist. For 2006-07 the economist has projected total sales tax revenues in the unincorporated area of \$28.0 million. The County has budgeted \$23.1 million. The major reasons for this difference include:

#### Sales Tax Sharing Agreement with the City of Redlands

In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides government services to an unincorporated area of the County, and in return the County pays the city a percentage of the sales tax revenue generated in that geographical area. This geographic area has and continues to add, numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County's discretionary sales tax revenue generated in this area.

#### Potential Annexations and Incorporations

Based on recent estimates, approximately 56% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the sphere's of influence of the 24 cities that are within the county's boundaries. A sphere of influence is a 'planning boundary within which a city or district is expected to grow into over time'. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenues if a community in the unincorporated area of the County decided to create a new city (incorporate).







### Property Transfer Tax

The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds \$100. The tax rate is \$ 0.55 for each \$500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. This revenue has increased dramatically over the last 5 years due to the high volume of housing sales and increasing housing prices. As shown in the table below this revenue has increased an average of 29.9% over the last five years.

Fiscal Year	Property Transfer Tax Revenue	Percent Increase/ (Decrease)	Five Year Average
2000-01	4,904,282		
2001-02	5,938,919	21.10%	
2002-03	7,752,989	30.55%	
2003-04	11,578,232	49.34%	
2004-05	15,184,960	31.15%	
2005-06	17,855,238	17.59%	29.94%

As seen in the table above, the increase in these revenues recently grew at a pace below the five year average in 2005-06. This is due to the slowdown in the local housing market. Because this revenue stream is dependent on the combination of sales prices and the number of sales transactions, it could conceivably decrease from current levels in future years. As a result, for the 2006-07 budget the county estimated that these revenues will be flat to the year end estimate for 2005-06.

### Net Interest Earnings

Net interest earnings for 2006-07 are projected at \$23.2 million. The increase in this revenue source is attributable to an estimated increase in interest earnings from the treasury pool offset by decreased interest and penalty proceeds from the Teeter program.

### COWCAP (County-Wide Cost Allocation Plan) Revenue

COWCAP revenue is reimbursement for overhead/indirect costs incurred by the general fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and fee supported general fund departments and taxing entities such as the library and Board-governed special districts. The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2006-07 countywide cost allocation plan (COWCAP) published by the Auditor/Controller.

### Property Tax Admin Revenue

Property Tax Administration revenue is expected to grow slightly from prior year budget. Property Tax Administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which the legislature provided to allow counties to recover the cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort.

### Recording Fee Revenue

The County Recorder's Office collects certain fees for the official recording of documents. In previous fiscal years, this revenue was budgeted in the Auditor/Controller-Recorder's budget unit. Due to the unpredictable nature of the recording fee revenue and the County Administrative Office's concern for stabilization of departmental financing, the Board approved placing the recording fee revenue in the countywide discretionary revenue.



### **State and Federal Aid**

State and Federal aid consists of a payment from the welfare realignment trust fund, which replaced the state revenue stabilization program, and SB90 reimbursements from the state. It also includes revenues received from the Federal government's Payment in Lieu of Taxes (PILT) program. Under current law, local governments are compensated through various programs for losses to their tax bases due to the presence of most federally owned land. PILT for the county is expected to grow slightly over the 2005-06 budgeted amount. 2005-06 actual revenues in State and Federal Aid include \$3.5 million in prior year SB90 reimbursements from the State.

### **Booking Fee Revenue**

State law currently provides the Board of Supervisors with the authority to assess booking fees. In 2005-06, the maximum fee imposed by counties was limited to one-half of actual administrative costs, including allowable overhead, with no reimbursement to other agencies for costs incurred. Recently, the state adopted legislation to begin in 2007-08, whereby local detention funds would be established in each county, to be funded by an annual allocation in the state budget—in lieu of counties charging for booking costs. Under this plan, the state would reimburse cities and other entities for the booking fee costs they incur in the interim, during 2006-07. Should the state not be in a position to provide the agreed upon funding in some future year, San Bernardino County will retain the right to charge booking fees as provided for under current law. For 2006-07 the budget is calculated based on a rate approved by the Board of Supervisors.

### **Treasury Pool Management Fees**

Beginning in 2006-07 discretionary revenue includes cost reimbursement for the management of the County's investment pool, which is projected to total \$2.2 million. In prior fiscal years, this revenue was budgeted in the Treasurer/Tax Collector's budget unit.

### **Other Revenue**

Other revenue includes overhead charges recovered through city law enforcement contracts with the Sheriff's Department, voided warrants issued by the county, projected transfers of unclaimed property tax refunds to the general fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.

### **Other Financing Sources**

#### **Fund Balance and Reimbursements**

The 2005-06 year-end fund balance for the general fund is \$100,698,815. Reimbursements of \$0.6 million relating to the county reorganization are anticipated.

#### **Use of Reserves**

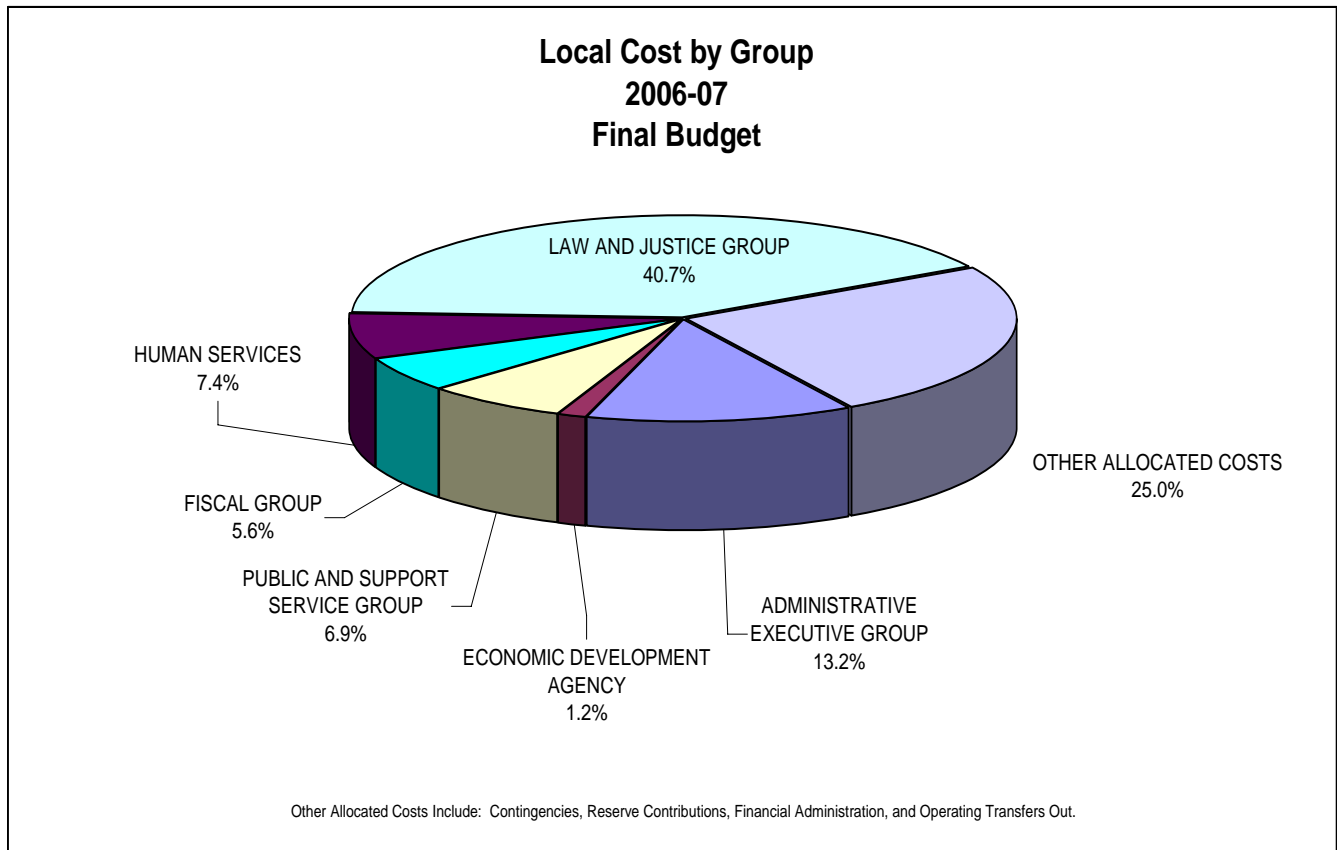
Planned uses of reserves include \$2.8 million of the Business Process Improvement Reserve to fund the following projects: Sheriff's Laboratory Information Management System, Probation's Kiosk Reporting System, County Library's Customer Self Sufficiency / Radio Frequency Identification System, and the Assessor's Imaging System. Additionally, \$1.5 million of the Equity Pool reserve will fund equity cost increases. The elimination of the Law and Justice Southwest Border Patrol Initiative reserve results in a transfer of the remaining balance of \$1.7 million to a special revenue fund.

#### **Operating Transfers In**

Operating transfers include transfers from the Courthouse and Criminal Justice Construction funds of \$4.1 million to finance debt service on the Foothill Law and Justice Center, transfers from the Arrowhead Regional Medical Center of \$6.8 million from their settlement proceeds, transfer of unused HAVA funds of \$2.3 million to be placed in the electronic voting reserve, and \$18.9 million of tobacco settlement funds, of which \$15.0 million is to be applied towards the Arrowhead Regional Medical Center Debt Service.



Countywide discretionary revenues are allocated to various county departments as local cost. The pie chart below shows what percentage of the local cost is allocated to each of the groups.



The schedule on the following pages shows a comparison of prior year local cost and current year local cost by department. This schedule also includes appropriation and revenue, including operating transfers, which are mechanisms to move financing between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's appropriation and revenue. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the Budget Summary Section, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.





Department Title	2005-06 Final Budget:			2006-07 Final Budget:			Change Between 2005-06 Final & 2006-07 Final:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	5,039,972	-	5,039,972	6,107,437	-	6,107,437	1,067,465	-	1,067,465
BOARD OF SUPERVISORS - LEGISLATION	452,315	-	452,315	480,950	-	480,950	28,635	-	28,635
CLERK OF THE BOARD	1,041,634	79,875	961,759	1,288,039	101,209	1,186,830	246,405	21,334	225,071
COUNTY ADMINISTRATIVE OFFICE	2,951,892	-	2,951,892	4,265,651	-	4,265,651	1,313,759	-	1,313,759
COUNTY ADMINISTRATIVE OFFICE - FRANCHISE ADMIN	273,394	-	273,394	295,845	-	295,845	22,451	-	22,451
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	363,681	-	363,681	388,681	-	388,681	25,000	-	25,000
COUNTY ADMINISTRATIVE OFFICE - JOINT POWERS LEASES	21,737,293	-	21,737,293	21,137,293	-	21,137,293	(600,000)	-	(600,000)
COUNTY ADMINISTRATIVE OFFICE - HEALTH ADMIN	156,520,540	141,520,540	15,000,000	157,188,824	142,188,824	15,000,000	668,284	668,284	-
COUNTY COUNSEL	8,824,331	5,348,111	3,476,220	10,640,844	6,051,944	4,588,900	1,816,513	703,833	1,112,680
HUMAN RESOURCES	5,547,109	302,500	5,244,609	7,010,040	302,500	6,707,540	1,462,931	-	1,462,931
HUMAN RESOURCES-EMPLOYEE HEALTH AND WELLNESS	104,200	104,200	-	972,404	635,404	337,000	868,204	531,204	337,000
HUMAN RESOURCES-UNEMPLOYMENT INSURANCE	4,000,000	-	4,000,000	4,000,000	-	4,000,000	-	-	-
INFORMATION SERVICES-APPLICATIONS DEVELOPMENT	12,670,613	5,468,678	7,201,935	13,595,036	4,832,240	8,762,796	924,423	(636,438)	1,560,861
PURCHASING	1,094,019	35,000	1,059,019	1,235,858	35,000	1,200,858	141,839	-	141,839
BEHAVIORAL HEALTH	126,367,241	124,524,488	1,842,753	164,822,242	162,979,489	1,842,753	38,455,001	38,455,001	-
BEHAVIORAL HEALTH - ALCOHOL AND DRUG SERVICES	19,104,240	18,954,782	149,458	19,782,871	19,633,413	149,458	678,631	678,631	-
PUBLIC HEALTH	81,491,061	80,354,979	1,136,082	81,277,158	78,976,899	2,300,259	(213,903)	(1,378,080)	1,164,177
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	14,008,854	12,470,813	1,538,041	17,604,866	14,251,621	3,353,245	3,596,012	1,780,808	1,815,204
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
LOCAL AGENCY FORMATION COMMISSION	182,000	-	182,000	231,000	-	231,000	49,000	-	49,000
COUNTY SCHOOLS	2,235,087	-	2,235,087	2,918,131	-	2,918,131	683,044	-	683,044
<b>ADMIN/EXECUTIVE GROUP SUBTOTAL:</b>	<b>464,481,977</b>	<b>389,163,966</b>	<b>75,318,011</b>	<b>515,715,671</b>	<b>429,988,543</b>	<b>85,727,128</b>	<b>51,233,694</b>	<b>40,824,577</b>	<b>10,409,117</b>
ECONOMIC DEVELOPMENT	4,039,579	-	4,039,579	7,884,668	2,000	7,882,668	3,845,089	2,000	3,843,089
<b>ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:</b>	<b>4,039,579</b>	<b>-</b>	<b>4,039,579</b>	<b>7,884,668</b>	<b>2,000</b>	<b>7,882,668</b>	<b>3,845,089</b>	<b>2,000</b>	<b>3,843,089</b>
ASSESSOR	13,665,978	647,500	13,018,478	17,559,215	820,000	16,739,215	3,893,237	172,500	3,720,737
AUDITOR-CONTROLLER	16,210,646	14,283,328	1,927,318	18,246,993	5,614,812	12,632,181	2,036,347	(8,668,516)	10,704,863
TREASURER-TAX COLLECTOR	18,295,073	14,955,679	3,339,394	19,863,932	13,022,442	6,841,490	1,568,859	(1,933,237)	3,502,096
<b>FISCAL GROUP SUBTOTAL:</b>	<b>48,171,697</b>	<b>29,886,507</b>	<b>18,285,190</b>	<b>55,670,140</b>	<b>19,457,254</b>	<b>36,212,886</b>	<b>7,498,443</b>	<b>(10,429,253)</b>	<b>17,927,696</b>
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	503,459	503,459	-	299,433	299,433	-	(204,026)	(204,026)	-
COUNTY TRIAL COURTS - GRAND JURY	316,921	-	316,921	333,956	-	333,956	17,035	-	17,035
COUNTY TRIAL COURTS - INDIGENT DEFENSE	8,104,078	-	8,104,078	8,979,100	-	8,979,100	875,022	-	875,022
COUNTY TRIAL COURTS - COURT FAC/JUDICIAL BENEFITS	1,847,440	-	1,847,440	1,637,427	-	1,637,427	(210,013)	-	(210,013)
COUNTY TRIAL COURTS-COURT FACILITY PAYMENTS	-	-	-	57,300	-	57,300	57,300	-	57,300
COUNTY TRIAL COURTS - MAINTENANCE OF EFFORT	35,725,112	25,098,622	10,626,490	31,782,490	21,156,000	10,626,490	(3,942,622)	(3,942,622)	-
DISTRICT ATTORNEY - CRIMINAL	44,854,137	28,084,043	16,770,094	51,315,220	32,481,610	18,833,610	6,461,083	4,397,567	2,063,516
DISTRICT ATTORNEY - CHILD ABDUCTION	843,475	-	843,475	850,475	850,475	-	7,000	850,475	(843,475)
LAW & JUSTICE GROUP ADMINISTRATION	379,229	255,000	124,229	147,302	5,000	142,302	(231,927)	(250,000)	18,073
PROBATION-ADMIN, CORRECTIONS & DETENTION	91,357,847	43,902,844	47,455,003	105,046,634	45,428,918	59,617,716	13,688,787	1,526,074	12,162,713
PROBATION-COURT ORDERED PLACEMENTS	2,926,330	-	2,926,330	3,808,330	-	3,808,330	882,000	-	882,000
PUBLIC DEFENDER	23,495,540	700,000	22,795,540	28,862,282	1,600,000	27,262,282	5,366,742	900,000	4,466,742
SHERIFF	338,515,894	230,440,703	108,075,191	376,188,213	242,597,731	133,590,482	37,672,319	12,157,028	25,515,291
<b>LAW AND JUSTICE GROUP SUBTOTAL:</b>	<b>548,869,462</b>	<b>328,984,671</b>	<b>219,884,791</b>	<b>609,308,162</b>	<b>344,419,167</b>	<b>264,888,995</b>	<b>60,438,700</b>	<b>15,434,496</b>	<b>45,004,204</b>



Department Title	2005-06 Final Budget:			2006-07 Final Budget:			Change Between 2005-06 Final & 2006-07 Final:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
PUBLIC AND SUPPORT SERVICES GROUP ADMIN	1,449,297	-	1,449,297	1,925,919	-	1,925,919	476,622	-	476,622
AGRICULTURE, WEIGHTS AND MEASURES	5,467,715	3,554,951	1,912,764	6,198,976	3,855,178	2,343,798	731,261	300,227	431,034
AIRPORTS	2,553,961	2,553,961	-	2,880,410	2,880,410	-	326,449	326,449	-
ARCHITECTURE AND ENGINEERING	585,320	-	585,320	585,320	-	585,320	-	-	-
COUNTY MUSEUMS	3,861,744	2,222,317	1,639,427	4,099,202	1,979,149	2,120,053	237,458	(243,168)	480,626
FACILITIES MANAGEMENT DEPARTMENT	14,414,161	6,211,352	8,202,809	16,197,204	6,900,616	9,296,588	1,783,043	689,264	1,093,779
FACILITIES MANAGEMENT DEPARTMENT - UTILITIES	16,079,526	-	16,079,526	16,654,565	246,355	16,408,210	575,039	246,355	328,684
LAND USE SERVICES - ADMINISTRATION	4,300	4,300	-	-	-	-	(4,300)	(4,300)	-
LAND USE SERVICES - CURRENT PLANNING	2,777,501	2,777,501	-	3,253,190	3,253,190	-	475,689	475,689	-
LAND USE SERVICES - ADVANCED PLANNING	3,444,907	2,259,002	1,185,905	3,963,886	2,287,138	1,676,748	518,979	28,136	490,843
LAND USE SERVICES - BUILDING AND SAFETY	8,704,085	8,704,085	-	9,870,995	9,870,995	-	1,166,910	1,166,910	-
LAND USE SERVICES - CODE ENFORCEMENT	3,575,482	678,000	2,897,482	4,519,923	767,530	3,752,393	944,441	89,530	854,911
LAND USE SERVICES - FIRE HAZARD ABATEMENT	2,545,738	2,545,738	-	2,617,148	2,617,148	-	71,410	71,410	-
PUBLIC WORKS-SURVEYOR	4,002,236	3,802,726	199,510	4,432,992	4,233,482	199,510	430,756	430,756	-
REAL ESTATE SERVICES	2,360,874	1,549,650	811,224	2,514,897	1,510,344	1,004,553	154,023	(39,306)	193,329
REAL ESTATE SERVICES - RENTS	211,592	45,912	165,680	109,290	109,290	-	(102,302)	63,378	(165,680)
REGIONAL PARKS	7,546,495	6,282,959	1,263,536	8,482,731	6,603,530	1,879,201	936,236	320,571	615,665
REGISTRAR OF VOTERS	5,489,021	2,557,200	2,931,821	13,163,095	9,462,107	3,700,988	7,674,074	6,904,907	769,167
<b>PUBLIC AND SUPPORT SVCS GRP SUBTOTAL:</b>	<b>85,073,955</b>	<b>45,749,654</b>	<b>39,324,301</b>	<b>101,469,743</b>	<b>56,576,462</b>	<b>44,893,281</b>	<b>16,395,788</b>	<b>10,826,808</b>	<b>5,568,980</b>
AGING AND ADULT SERVICES	8,839,639	8,839,639	-	10,602,940	10,602,940	-	1,763,301	1,763,301	-
AGING AND ADULT SERVICES - PUBLIC GUARDIAN	872,400	765,255	107,145	1,070,683	342,000	728,683	198,283	(423,255)	621,538
CHILD SUPPORT SERVICES	39,661,243	39,661,243	-	39,797,347	39,797,347	-	136,104	136,104	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	334,612,841	317,973,721	16,639,120	344,305,647	322,009,254	22,296,393	9,692,806	4,035,533	5,657,273
CHILD ABUSE /DOMESTIC VIOLENCE	1,507,439	1,507,439	-	1,906,812	1,906,812	-	399,373	399,373	-
ENTITLEMENT PAYMENTS (CHILD CARE)	85,905,228	85,905,228	-	85,905,228	85,905,228	-	-	-	-
CHILDREN'S OUT OF HOME CHILDCARE	367,618	-	367,618	574,056	-	574,056	206,438	-	206,438
AID TO ADOPTIVE CHILDREN	30,863,005	29,396,811	1,466,194	34,457,874	32,678,455	1,779,419	3,594,869	3,281,644	313,225
AFDC-FOSTER CARE	104,436,782	89,700,112	14,736,670	97,376,873	82,654,830	14,722,043	(7,059,909)	(7,045,282)	(14,627)
REFUGEE CASH ASSISTANCE	100,000	100,000	-	100,000	100,000	-	-	-	-
CASH ASSISTANCE - IMMIGRANTS	856,993	856,993	-	822,878	822,878	-	(34,115)	(34,115)	-
CALWORKS-ALL OTHER FAMILIES	218,489,279	213,837,725	4,651,554	197,073,867	192,702,019	4,371,848	(21,415,412)	(21,135,706)	(279,706)
KIN-GAP PROGRAM	4,818,510	4,036,410	782,100	4,575,538	3,868,452	707,086	(242,972)	(167,958)	(75,014)
AID FOR SERIOUSLY EMOTIONALLY DISTURBED	5,242,905	4,262,503	980,402	4,761,913	3,781,511	980,402	(480,992)	(480,992)	-
CALWORKS-2 PARENT FAMILIES	16,419,500	16,029,361	390,139	14,215,939	13,881,109	334,830	(2,203,561)	(2,148,252)	(55,309)
AID TO INDIGENTS	1,446,420	370,256	1,076,164	1,181,027	341,471	839,556	(265,393)	(28,785)	(236,608)
VETERAN'S AFFAIRS	1,264,563	331,117	933,446	1,375,189	327,500	1,047,689	110,626	(3,617)	114,243
<b>HUMAN SERVICES SUBTOTAL:</b>	<b>855,704,365</b>	<b>813,573,813</b>	<b>42,130,552</b>	<b>840,103,811</b>	<b>791,721,806</b>	<b>48,382,005</b>	<b>(15,600,554)</b>	<b>(21,852,007)</b>	<b>6,251,453</b>
<b>GENERAL FUND DEPARTMENT SUBTOTAL:</b>	<b>2,006,341,035</b>	<b>1,607,358,611</b>	<b>398,982,424</b>	<b>2,130,152,195</b>	<b>1,642,165,232</b>	<b>487,986,963</b>	<b>123,811,160</b>	<b>34,806,621</b>	<b>89,004,539</b>
CONTINGENCIES	96,967,709	-	96,967,709	59,124,138	-	59,124,138	(37,843,571)	-	(37,843,571)
RESERVE CONTRIBUTIONS	21,403,093	-	21,403,093	35,452,753	-	35,452,753	14,049,660	-	14,049,660
FINANCIAL ADMINISTRATION EXPENDITURES	7,500,000	7,500,000	-	7,500,000	7,500,000	-	-	-	-
FINANCIAL ADMINISTRATION REIMBURSEMENTS	(583,586)	(583,586)	-	(583,586)	(583,586)	-	-	-	-
OPERATING TRANSFERS OUT	37,129,938	-	37,129,938	81,458,956	-	81,458,956	44,329,018	-	44,329,018
<b>TOTAL COUNTYWIDE ALLOCATED COSTS:</b>	<b>162,417,154</b>	<b>6,916,414</b>	<b>155,500,740</b>	<b>182,952,261</b>	<b>6,916,414</b>	<b>176,035,847</b>	<b>20,535,107</b>	<b>-</b>	<b>20,535,107</b>
<b>GRAND TOTAL:</b>	<b>2,168,758,189</b>	<b>1,614,275,025</b>	<b>554,483,164</b>	<b>2,313,104,456</b>	<b>1,649,081,646</b>	<b>664,022,810</b>	<b>144,346,267</b>	<b>34,806,621</b>	<b>109,539,646</b>

NOTE: Total countywide allocated costs on this schedule includes appropriation and reimbursements for Financial Administration. This appropriation is offset in the countywide discretionary revenue schedule.

## **CONTINGENCIES**

The County Contingencies includes the following elements:

### **One Time Contingencies**

#### **Mandatory Contingencies**

Board Policy requires the county to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

#### **Uncertainties**

Any unallocated financing available from current year sources (both ongoing and one-time) that has not been set-aside and any unallocated fund balance carried over from the prior year, is budgeted in the contingencies for uncertainties. Final budget action includes a provision that allocates any difference between estimated and final fund balance to this contingencies account.

### **Ongoing Set-Asides Contingencies**

The county budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of financing that have been targeted for future ongoing program needs.

### **Contingencies - Priority District and Program Needs**

An annual base allocation of \$2,500,000 is set aside for priority district and program needs. Any amounts unspent in this contingencies account at the end of a fiscal year rolls forward into the next fiscal year.

	<b>Contingencies</b>			
	<b>2005-06</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2006-07</b>
	<b>Beginning Balance</b>	<b>Approved Contributions/ (Uses)</b>	<b>Approved Contributions/ (Uses)</b>	<b>Final Budget</b>
<b>One-time Contingencies</b>				
Mandatory Contingencies (1.5% of Locally Funded Appropriations)	6,084,960	175,570	1,607,874	7,868,404
Uncertainties	69,902,464	(47,728,389)	(5,974,152)	16,199,923
<b>Ongoing Set Asides Contingencies</b>				
Future Retirement Costs	7,900,000	(7,900,000)	7,900,000	7,900,000
Jail Expansion (Formerly Future Financing)	7,000,000		(4,600,000)	2,400,000
Workload Adjustments	2,700,000	(1,600,000)	(1,100,000)	-
Future Space Needs	-	-	20,000,000	20,000,000
<b>Contingencies - Priority District and Program Needs</b>	<b>3,380,285</b>	<b>(1,124,474)</b>	<b>2,500,000</b>	<b>4,755,811</b>
<b>Total Contingencies</b>	<b>96,967,709</b>	<b>(58,177,293)</b>	<b>20,333,722</b>	<b>59,124,138</b>



### 2005-06 Changes to Contingencies for Uncertainties

For 2005-06 mid-year Board actions authorized the use of approximately \$69.9 million of the Contingencies for Uncertainties. Major allocations include:

- \$11.8 million in ongoing funding for salary and benefit increases pursuant to negotiated labor agreements with employees approved after final budget adoption.
- \$5.3 million to fund Safe Route to Schools Projects
- \$5.0 million to finance various park improvements
- \$4.4 million to finance modernization and office space utilization projects
- \$4.2 million transferred to the Juvenile Maximum Security Facility Reserve
- \$3.7 million to finance building improvements
- \$3.5 million to finance a new fire station in Hesperia/Oak Hills
- \$3.0 million to finance library improvements
- \$2.6 million to reflect changes required as a result of the adoption of the final State budget
- \$2.4 million to finance Glen Helen Park Improvements
- \$2.1 million to finance street improvements
- \$2.1 million to finance community projects in Upland, Muscoy, Crestline and Rim of the World
- \$2.0 million transferred to the Museum's Hall of Paleontology Reserve
- \$2.0 million to fund a total of 26 new positions in the Sheriff's department
- \$1.6 million to fund Glen Helen Water System Improvements
- \$1.6 million to fund Senior Citizen Programs
- \$1.4 million to fund the Sheriff/Coroner Morgue Expansion Project
- \$1.3 million to increase the General Purpose Reserve and Mandatory Contingencies as a result of increases in revenue projections

For 2005-06 mid-year Board actions authorized increases of \$22.2 million in the Contingencies for Uncertainties:

- \$11.7 million to reflect upward revisions to revenue estimates
- \$7.9 million transferred from the contingencies set-aside for future retirement costs
- \$1.5 million to reflect the use of a portion of the Teeter Reserve to offset tax sale losses the County incurred in 2004-05.
- \$1.1 million to reflect the elimination of the Bark Beetle Reserve. The Bark Beetle Reserve was established on December 17, 2002 to help address the bark beetle infestation in the local mountains. Since the reserve was established, the County was successful in securing Federal funds to aid in the fight against the bark beetle infestation.





### 2006-07 Mandatory Contingencies

The base allocation to the mandatory contingency budget of \$7,868,404 is established pursuant to Board policy, based on projected locally funded appropriation of \$524.6 million.

### 2006-07 Ongoing Set-Asides Contingencies

As seen in the Reserve section, the county has set aside a significant amount of one-time money that can assist the county temporarily for unforeseen increases in expenditure or reductions in revenues. However, there has never been any money set aside to permanently address future foreseen increases in expenditures. Beginning in 2004-05, the county positioned itself to set aside ongoing revenue sources to finance future ongoing expenditures in three different areas: retirement, future financing needs, and workload adjustments. In 2006-07, the county added future space needs to the listing of on-going set-asides.

- **Future Retirement Costs Ongoing Set Aside:**  
For the past three years, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns. The Board has set aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date.
- **Jail Expansion (Formerly Future Financing Needs) Ongoing Set Aside:**  
In 2005-06, the Board set aside \$7.0 million of ongoing money to address the future needs of the County's growing population. For 2006-07, the Board allocated this set-aside to a specific use, increased jail space. In final budget action, the Board approved the use of \$4.6 million of this on-going set-aside to fund the design costs for the Adelanto Detention Center Expansion Project.
- **Workload Adjustments Ongoing Set Aside:**  
Beginning in 2004-05, the Board set-aside \$2.7 million to address departmental workload issues caused primarily by budget reductions required to offset State budget reductions in prior years. On December 13, 2005 the Board approved the elimination of this ongoing set-aside to be used to fund operations at the County Fire Department.
- **Future Space Needs Ongoing Set Aside:**  
Beginning in 2006-07, the Board set-aside \$20.0 million to address future space needs. This is based on a building analysis completed by staff. The space needs of the county continue to grow based on expansion of the area and the programs that service the county's growing population.





**RESERVES**

The county has a number of reserves (designations) that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a county policy to provide guidelines and goals for reserve levels. That policy calls for the county's general purpose reserve to equal 10% of locally funded appropriation. The Board of Supervisors also established special purpose reserves to temporarily help meet future needs.

<b>Total Reserves</b>						
	<b>2004-05</b>	<b>Approved 2005-06</b>		<b>2005-06</b>	<b>Approved 2006-07</b>	
	<b>Ending Balance</b>	<b>Contributions</b>	<b>Uses</b>	<b>Ending Balance</b>	<b>Contributions</b>	<b>Uses</b>
<b>General Purpose Reserve</b>	<b>37,214,100</b>	<b>4,522,765</b>		<b>41,736,865</b>	<b>10,719,160</b>	
<b>Specific Purpose Reserves</b>						
Medical Center Debt Service	32,074,905			32,074,905		
Retirement	7,000,000	7,900,000		14,900,000	7,900,000	
Teeter	19,260,087		(1,512,886)	17,747,201		
Jail Expansion (Formerly Future Financing)		7,000,000		7,000,000	7,000,000	
Juvenile Maximum Security	1,492,986	4,200,000		5,692,986	3,700,000	
Capital Projects	4,000,000			4,000,000		
Museum's Hall of Paleontology	1,703,030	2,000,000		3,703,030		
Business Process Improvement	3,000,000		(489,394)	2,510,606	1,105,550	(2,832,683)
Insurance	3,000,000			3,000,000		
Restitution	1,614,234	450,791	(200,000)	1,865,025		
Justice Facilities	1,304,753		(667,600)	637,153		
Electronic Voting	500,000			500,000	2,278,043	
Moonridge Zoo				-	2,750,000	
L&J SWBPI	1,883,491	287,097	(446,601)	1,723,987		(1,723,987)
Equity Pool	3,513,804		(2,006,766)	1,507,038		(1,507,038)
Bark Beetle	1,665,300		(1,665,300)	-		
Workload Adjustments		2,700,000	(2,700,000)	-		
<b>Total Specific Purpose</b>	<b>82,012,590</b>	<b>24,537,888</b>	<b>(9,688,547)</b>	<b>96,861,931</b>	<b>24,733,593</b>	<b>(6,063,708)</b>
<b>Total Reserves</b>	<b>119,226,690</b>			<b>138,598,796</b>		
						<b>167,987,841</b>



2005-06 Approved Contributions

- \$4.5 million to the General Purpose Reserve based on the 2005-06 modified budget for countywide discretionary revenue which finances locally funded appropriation.
- \$7.9 million to the Retirement Reserve, \$7.0 million to the Future Financing Reserve, and \$2.7 million to the Workload Adjustment Reserve were funded by ongoing set-asides that remained unspent at the end of 2004-05.
- \$4.2 million to the Juvenile Maximum Security Reserve from Probation Department savings in 2004-05.
- \$2.0 million to the Museum Hall of Paleontology Reserve to assist in construction costs.
- \$450,791 to the Restitution Reserve to set-aside settlement revenues received by the County in 2004-05 from the ongoing corruption litigation.
- \$287,097 to the Southwest Border Patrol Initiative Reserve to set-aside Federal funding received in 2004-05.

2005-06 Approved Uses

- \$1.5 million from the Teeter Reserve to offset tax sale losses the County incurred in 2004-05.
- \$0.5 million from the Business Process Improvement Reserve to fund the Human Resources' Application Tracking System and Personnel File Imaging Systems, Regional Park's Central Reservation System, and Facilities Management's Automated Work Order Implementation Project.
- \$200,000 from the Restitution Reserve to finance the cost of the county's on-going corruption litigation.
- \$667,600 from the Justice Facilities Reserve to fund phase two of the Central Detention Center HVAC replacement in the amount of \$430,000, \$17,600 for an updated title report for the Marantha Jail Facility in Adelanto, and \$220,000 for renovation and expansion of the minimum security dorms at the Glen Helen Rehabilitation Center.
- \$446,601 from the Law and Justice Southwest Border Patrol Initiative Reserve (SWBPI) as detailed below: 1) \$250,000 to fund the Handheld Citation Capture Device grant program; 2) \$68,136 for remaining one-time costs to implement a comprehensive, Countywide Gang Initiative; 3) \$69,000 to perform a Laboratory Information Management System Assessment for the Sheriff; 4) \$65,812 to fund the balance of the Electronic Information Sharing Project for the District Attorney; 5) \$47,545 to purchase video editing systems for the Sheriff; 6) \$53,123 for eight unarmored polycom teleconferencing units for the Public Defender and Probation and 7) \$201,297 for the purchase of a digital lab and film processing system for the Sheriff-Coroner. Of these allocations \$242,500 was returned to the reserve unspent by the Law and Justice Group Administration budget from the Handheld Citation Capture Device program, and a total of \$65,812 was returned unspent by the District Attorney budget from the County-Wide Gang Initiative and the Electronic Information Sharing Project.
- \$2.0 million from the Equity Pool Reserve to fund the 2005-06 costs of approved equity adjustments.
- The Bark Beetle Reserve was established on December 17, 2002 to help address the bark beetle infestation in the local mountains. Since the reserve was established, the County was successful in securing Federal funds to aid in the fight against the bark beetle infestation. On November 1, 2005, the Board dissolved this reserve. Prior to it being dissolved, the Bark Beetle Reserve funded site and parking lot improvements and the purchase and installation of temporary modular office units totaling \$560,000 for the Running Springs Bark Beetle Hazard Abatement Offices. This amount will be reimbursed to the general fund from future lease/rent revenues from these offices.



- \$2,700,000 from the Workload Adjustment Reserve to County Fire to fund one-time capital apparatus, equipment, and fire-station facility needs.

#### 2006-07 Approved Contributions and Uses

For 2006-07 the general-purpose reserve is increased by \$10.7 million to conform to Board policy. This increase is based on projected locally funded appropriation of \$524.6 million and brings the balance of the general-purpose reserve to \$52.5 million. The reserve for Retirement is increased by \$7.9 million. The Jail Expansion Reserve, formerly the Future Financing Reserve, is increased by the ongoing set aside of \$7.0 million that remained unspent at the end of 2005-06. The Juvenile Maximum Security Reserve is increased by \$3.7 million, funded by savings from Probation's 2005-06 department budget. The Business Process Improvement Reserve is increased by \$1.1 million to return it to its original amount after funding 2005-06 uses. Additionally \$2.8 million of this reserve is to be used in 2006-07. The Electronic Voting and Moonridge Zoo Reserves are increased by \$2.3 million and \$2.8 million, respectively. The elimination of the Law and Justice Southwest Border Patrol Initiative reserve results in a transfer of the remaining balance of \$1.7 million to a special revenue fund. Use of the remaining \$1,507,038 of the Equity Pool reserve will assist in funding the 2006-07 costs of approved equity adjustments.

The chart below shows recent history of the County Reserve levels.

	Year End Actual Balance					Adopted
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Total General Purpose Reserve</b>	<b>30.2</b>	<b>31.9</b>	<b>34.8</b>	<b>37.2</b>	<b>41.7</b>	<b>52.5</b>
<b>Specific Purpose Reserves</b>						
Medical Center Debt Service	32.0	32.1	32.1	32.1	32.1	32.1
Retirement	1.5	7.0	7.0	7.0	14.9	22.8
Teeter	19.3	19.3	19.3	19.3	17.7	17.7
Jail Expansion (formerly Future Financing)					7.0	14.0
Juvenile Maximum Security	1.5	1.5	1.5	1.5	5.7	9.4
Capital Projects Reserve		4.0	4.0	4.0	4.0	4.0
Museum's Hall of Paleontology			0.9	1.7	3.7	3.7
Business Process Improvement				3.0	2.5	0.8
Insurance		5.0	3.0	3.0	3.0	3.0
Restitution	8.9	2.1	2.1	1.6	1.9	1.9
Justice Facilities	5.0	4.9	3.7	1.3	0.6	0.6
Electronic Voting System		5.7	-	0.5	0.5	2.8
Moonridge Zoo						2.8
L&J Southwest Border Prosecution Initiative			3.4	1.9	1.7	-
Equity Pool		1.9	4.4	3.5	1.5	-
Bark Beetle		-	1.8	1.7	-	-
Workload Adjustment					-	-
<b>Total Specific Purpose Reserves</b>	(1) <b>68.2</b>	<b>83.4</b>	<b>83.1</b>	<b>82.0</b>	<b>96.9</b>	<b>115.5</b>
<b>Total Reserves</b>	(1) <b>98.4</b>	<b>115.3</b>	<b>118.0</b>	<b>119.2</b>	<b>138.6</b>	<b>168.0</b>

(1) Totals may not add due to rounding

